

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 SSO-00 NSCE-00
NSC-05 INR-05 CIAE-00 OMB-01 L-01 PRS-01 USIE-00
INRE-00 SP-02 EB-04 /043 W
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TO SECSTATE WASHDC NIACT IMMEDIATE 2106

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5272

LIMDIS

TREASURY FOR SYVRUD
DEPT PASS FEDERAL RESERVE BANK

E.O. 11652: XGDS-4
TAGS: EFIN, PO
SUBJ: FINANCIAL CRISIS

REF: (A) STATE 158585, (B) LISBON 5271

1. ACTING ECONOMIC COUNSELOR MET JULY 9 WITH BANK OF PORTUGAL
GOVERNOR SILVA LOPES. MAJOR POINTS FOLLOW:

2. RESERVES: AVAILABLE RESERVES OF BANK OF PORTUGAL DROPPED
ANOTHER APPROXIMATELY \$10 MILLION ON JULY 6, 7, 8. PAYMENT
OF ABOUT \$25 MILLION ON JULY 11 WILL LEAVE AVAILABLE RESERVES
AT THAT TIME AT ABOUT \$50 MILLION.

3. BIS LOAN: HOWEVER, ACCORDING SILVA LOPES IT NOW APPEARS
THAT BIS WILL LOAN PORTUGAL \$100 MILLION SHORT-TERM. GERMAN
GOVERNMENT HELPING THROUGH BUNDESBANK CONTRIBUTION.
DECISION EXPECTED BE ANNOUNCED JULY 11 OR 12. GOVERNOR,
HOWEVER, EXPECTS THIS LOAN TO LAST ONLY TWO TO THREE WEEKS
AND PAYMENT CRISIS WILL RECUR.

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4. IMF: GOP HAS ASKED IMF REPRESENTATIVE TO VISIT PORTUGAL
ASAP. REQUEST MADE ON JULY 8 THROUGH ITALIAN IMF GOVERNOR
TO SCHMIDT WHO IS EXPECTED TO ARRIVE BEFORE END OF NEXT WEEK.

5. OUTFLOW: ACCORDING GOVERNOR, GOP FRANKLY PUZZLED BY
LARGE RECENT OUTFLOW. BANK OF PORTUGAL INTENSIVELY STUDYING

PROBLEM AND EXPECTS DEFINITIVE ANSWER BY END OF WEEK OF JULY 11. MOST LOGICAL ANSWER FOR BULK OF OUTFLOW IS SHORT-TERM CAPITAL FLIGHT ON WHICH BANK OF PORTUGAL CANNOT GET AN ACCURATE HANDLE. SHORT-TERM MOVEMENTS CALCULATED AS RESIDUAL; THIS RESIDUAL NOW UP TO \$300-\$400 MILLION PER MONTH. GOVERNOR ACKNOWLEDGED THAT WHOLLY OWNED BANKING SYSTEM SHOULD BE ABLE CONTROL THESE MOVEMENTS BUT HAS BEEN UNABLE TO DO SO.

6. GOLD: GOVERNOR NOTED THAT BETWEEN 45 PERCENT AND 50 PERCENT OF PORTUGUESE GOLD NOW MORTGAGED. HE REITERATED THAT BIS ADVISES THAT NO MORE THAN \$50 MILLION PER MONTH CAN BE SOLD WITHOUT UPSETTING MARKET. HE ADDED THAT OTHER CENTRAL BANKS ARE LIMITED BY IMF RULES AS TO HOW MUCH THEY CAN PURCHASE AND PORTUGAL WOULD NOT TRY AND SELL ON OPEN MARKET IN FACE OF OPPOSITION OF BIS. WHETHER MARKET IS AS THIN AS BIS BELIEVES IS POINT OF DISCUSSION BETWEEN US FED AND EUROPEAN CENTRAL BANKS AND IS NOT PORTUGUESE DECISION. GOLD WILL BE COLLATERAL FOR NEXT WEEK'S \$100 MILLION FROM BIS. BUT IT IS OUT OF THE QUESTION TO CONSIDER GOLD AS COLLATERAL FOR COMMERCIAL BANKS BECAUSE OF CONTINUING PROBLEM WITH NEGATIVE PLEDGE CLAUSE. HE RECALLED GOP'S LENGTHY, FRUITLESS NEGOTIATIONS OVER \$150 MILLION LOAN FROM CITYCORP-LED 12-BANK CONSORTIUM IN 1975.

7. US COMMERCIAL BANKS: SILVA LOPES SAID BANK OF PORTUGAL
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HAS ALREADY CONTACTED TWO US BANK REPRESENTATIVE IN MADRID ABOUT POSSIBLE SHORT-TERM CREDIT.

8. CREDIT RATING: SILVA LOPES STATED COMMERCIAL CREDIT ROLLOVER OR MORATORIUM IS UNACCEPTABLE TO GOP BECAUSE OF DAMAGE TO PORTUGUESE CREDIT STANDING. PORTUGAL NOW HAS MORE THAN \$1 BILLION IN CREDIT FROM COMMERCIAL BANKS AND BANK OF PORTUGAL DOES NOT WISH JEOPARDIZE THIS SOURCE FOR FUTURE CREDIT. THIS WOULD BE SHORT-TERM GAIN AT EXPENSE OF LONG-TERM ECONOMIC PROSPECTS. COMMERCIAL PAYMENTS FOR FEES, ROYALTIES AND OTHER REMITTANCES TO OVERSEAS FIRMS OR PERSONS COULD BE FURTHER DELAYED BUT BANK OF PORTUGAL CONSIDERS THIS SIMILAR TO MORATORIUM OR ROLLOVER. GOVERNOR DID ADMIT THAT THESE PAYMENTS ARE LARGE.

9. DEVALUATION: ACCORDING GOVERNOR, ESCUDO PROBABLY OVERVALUED NOW AND DEVALUATION IS BEING CONSIDERED WITHIN GOP. (MINISTER OF FINANCE TOLD EMBASSY OFFICIALS ON JULY 8, WHEN THEY TRANSMITTED POINTS IN REFTEL A., THAT BLACK MARKET RATE IS 46 ESCUDOS TO \$1, A PREMIUM OF ABOUT 18 PERCENT.) HOWEVER, MANY IN GOP STRONGLY OPPOSE IT. SILVA LOPES MADE IT CLEAR HE STILL OPPOSES, ALTHOUGH GOVERNOR DID SAY EVEN HIS RESISTANCE WAS

WEAKENING. ANALYSIS OF FEBRUARY DEVALUATION INDICATES IT SURPRISINGLY HELPED REMITTANCES, INCREASED TOURISM RECEIPTS AS EXPECTED AND HAS NOT YET HAD MUCH EFFECT ON EXPORTS.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 5272

LIMDIS

TREASURY FOR SYVRUD.
DEPT PASS FEDERAL RESERVE BANK

SILVA LOPES NOTED THIS LAST EFFECT NOT SURPRISING AND DEVALUATION NEEDS MORE TIME TO WORK ITS WAY THROUGH TO EXPORTS. PRINCIPAL PROBLEM AT THIS MOMENT WITH ANOTHER DEVALUATION IS THAT IT MAY FUEL, RATHER THAN DAMPEN, SPECULATION. GOVERNOR AGAIN CRITICIZED PRESS ON THIS ISSUE AND STATED BELIEF THAT BUSINESS TOOK ADVANTAGE OF FEBRUARY DEVALUATION TO RAISE PROFITS AND REMIT ALL OF THEM ABROAD INSTEAD OF REINVESTING. SILVA LOPES STATED THAT PRIVATE INVESTORS STILL DID NOT HAVE SUFFICIENT CONFIDENCE IN SPITE OF SIGNIFICANT GOP EFFORTS AND ATTRIBUTED LACK OF CONFIDENCE TO FEARS OF SOCIAL UNREST AND STRIKES.

10. ADDITIONAL MEASURES. WITH REGARD ADDITIONAL MEASURES, SILVA LOPES STATED BANK OF PORTUGAL HAS PROPOSED SEVERAL TOUGH ONES TO PRIME MINISTER. UNFORTUNATELY, OTHER PARTS OF GOVERNMENT WILL NOT ACCEPT THEM BECAUSE OF POLITICAL REPERCUSSIONS. OTHER MINISTRIES HAVE ALSO MADE SUGGESTIONS. FINAL AGREEMENT HAS NOT BEEN REACHED. ACTING ECON COUNS NOTED THAT WASHINGTON DECISION ON SHORT-TERM STOP-GAP FINANCIAL ASSISTANCE WOULD BE DEPENDENT UPON TYPE AND SCOPE
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OF MEASURES EVEN THOUGH WE UNDERSTOOD THAT THEY COULD NOT
IMMEDIATELY REVERSE OUTWARD FLOW.

11. REQUEST DESK ARRANGE FOR SYVRUD AND FERRER CALL SILVA
LOPES AT BANK OF PORTUGAL AT ABOUT NOON WASHINGTON TIME ON
JULY 11. GOVERNOR ATTEMPTED CALL SYVRUD ON JULY 8.
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